



“Dhanlaxmi Bank Limited Q4 Financial Year 2014 Conference Call”

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**ANALYST: MR. MONA KHETAN – ANALYST, BANKING &
STRATEGY, ELARA SECURITIES PRIVATE LIMITED**

**MANAGEMENT: MR. P.G. JAYAKUMAR – MANAGING DIRECTOR &
CHIEF EXECUTIVE OFFICER, DHANLAXMI BANK
LIMITED**

**MR. K. S. KRISHNAN - CHIEF FINANCIAL OFFICER,
DHANLAXMI BANK LIMITED**

**MR. CHANDRAN - EXECUTIVE SECRETARY,
DHANLAXMI BANK LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Dhanlaxmi Bank Limited Q4 FY 2014 Earnings Conference Call, hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. P.G. Jayakumar from Dhanlaxmi Bank Limited, Thank you and over to you sir.

P.G. Jayakumar: Thanks. Good evening friends. Along with me my CFO Mr. K. S. Krishnan is also here and Mr. Chandran, Executive Secretary. Good evening everybody. This year, our results, were a little not in the expected lines mainly because of the additional NPA on account of general trend in the country and the climate. Second reason was we had a write off which was residual to the previous years of about 60 Crores to 70 Crores altogether and also we had MTM loss of about 100 Crores. So these are the reasons for the main contributory factors for the loss that we have reported. If you kindly see that about 133 Crores is towards the NPA provisioning which we are confident of retrieving in the current financial year along with the effective recovery steps now it is undergoing. If you look at the NPA figures there was slippage of about 488 Crores this year, and last year it was 600 Crores put together 1088 Crores went to NPA in the last two financial years out of which crossed more than 600 Crores in the last two years. This year alone the reduction is about 382 Crores.

That is the scenario, but if you ask me the working finance, I will say that our efforts are on for further recovery. If you see that our banking is progressing well in the current financial year. With regard to the CASA growth it is somehow stable at 22% and retail deposits is increasing to about 62% to 65% when compared to around 50% last year. Yield on advances is stable at about 12.34% and net interest margin is stable at 2.27%. So, that is about the short view of the results and net NPA is about 3.8% and the growth is about 6%. That is the scenario till now. We look forward to a better year in the current financial year. That is what I would like to tell you in general.

Business growth if you look at the deposits we have got 8%, which is almost averaged to the national trend whereas advances grew only by about 3.2% mainly because many of our advances which are bulk are getting refunded and the harder recovery measures that we have taken in respect of the NPAs, so the advance growth was not very pronounced. It was just less than the national average. Any questions, kindly ask.

Moderator: Thank you very much Sir. Participants we will now begin the question and answer session. The first question is from the line of Yash Ved from IIFL. Please go ahead.

Yash Ved: What kind of advances and deposits for the quarter?

- P.G. Jayakumar:** 20338 for the total business, total deposits 1133, advances 8206.
- Yash Ved:** What are your advances, deposits target, and credit growth target for FY 2015?
- P.G. Jayakumar:** Deposit target 13500 and advance target 8500.
- Yash Ved:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.
- VP Rajesh:** Thanks for taking my questions. The first one is can you tell me the amount of restructured assets as of March 31?
- P.G. Jayakumar:** It is 127 Crores.
- VP Rajesh:** 127 Crores and how much of this is standard restructured?
- P.G. Jayakumar:** Standard is what I am talking about 127 Crores. Total is 150 Crores, 33 Crores is NPA.
- VP Rajesh:** 33 Crores is NPA and 127 is the restructured assets, correct?
- P.G. Jayakumar:** 126 Crores exactly plus 35 Crores.
- VP Rajesh:** 126 Crores and 35 Crores. I am just trying to understand the employee expenses and other expenses were quite up in Q4, so are there any one-off charges in there or we should expect this to be the quarterly runrate?
- P.G. Jayakumar:** There will be some provision for additions for salaries due to settlement supposed to be collected during the current year. It is an all India settlement.
- VP Rajesh:** What is the breakup of your loan book into retail, corporate and SME?
- P.G. Jayakumar:** Corporate 25%, SME is 17%, Agri 19%, and Retail 40%.
- VP Rajesh:** Your CAR is at 8.67% so which I believe is lower than mandated by RBI so is there any restriction imports by them due to this or how should we think about it. I know you have your preferential process going on. So perhaps you can elaborate on these two related issues? What I am saying is that your CAR is below 9%, so I am trying to understand if there is any restriction on giving out advances etc., because it is below the RBI's minimum requirement and relatedly what is the status for the preferential issue because of which it does not help us increase the CAR?

- P.G. Jayakumar:** Basel II capital adequacy ratio is 10% and Basel III 8.67%, but we mobilized the preferential issue in April. Our Basel III is 9% to 3%. There is no restriction on advances.
- VP Rajesh:** That is all I have. Thank you.
- Moderator:** Thank you. The next question is from the line of Sudhakar Prabhu from Span Capital. Please go ahead.
- Sudhakar Prabhu:** Good afternoon Sir. I had couple of questions. First of all out of your gross NPA of 485 Crores, what will be the breakup between retail, corporate and other segments? Which are the segments which has the major chunk out of this?
- P.G. Jayakumar:** Corporate is the larger chunk.
- Sudhakar Prabhu:** How much would be corporate out of this?
- P.G. Jayakumar:** Corporate will be about 65%.
- Sudhakar Prabhu:** Balance 35% should be retail?
- P.G. Jayakumar:** Retail about 15% or so.
- Sudhakar Prabhu:** Is this NPA related to certain sector or is there any large chunk in this or is it spread across multiple sectors and multiple accounts? How is it like?
- P.G. Jayakumar:** NPL the sectors which affected us one is the technology that is education fees. Technology coupled with education, one is that.
- Sudhakar Prabhu:** How much will the technology and education part be?
- P.G. Jayakumar:** May be out of 65% about 10% will be technology and education. Then pharma sector again similar amount, some real estate is about similar 15% to 20% and others put together will be rest.
- Sudhakar Prabhu:** What are the steps you are taking to recover these amounts and are you confident of recovering this amount by maybe FY 2016 or FY 2015? What is your take on that?
- P.G. Jayakumar:** We have taken very stringent action in many of the sectors. Our plan is we are moving very aggressively (Inaudible-12.20), winding up application, deploying them with full defaulter so this has had paid dividend this quarter or have started paying dividends. Some of the major corporate's has come forward to give us the collateral security. So our collaboration

will be only lesser amounts, others have started promising and paying back. There are a lot of positive developments which we expect substantially, at least 50% of our corporate's outstanding will be recovered in the current financial year.

Sudhakar Prabhu: So, when you say 50% at least 150 Crores. Is that amount right?

P.G. Jayakumar: Yes absolutely.

Sudhakar Prabhu: What is total recovery do you plan in FY 2015, at least 200-odd Crores?

P.G. Jayakumar: Total recovery planned is about 70% to 80%. More than 300 Crores is the target. That is our target, but I do not know, I am not telling that at present recovery can happen, but we are working on 70% recovery target. The slippages much of these advances, which went back, relates to the previous management period and those kind of reckless spending that occurred in those years are not there in the last two years. So whatever the worst happened have happened already. We estimate that bad days are over. We do not have any serious threats as of now. Going forward the book is not that kind of affected. We do not the slippage in the current financial year.

Sudhakar Prabhu: So, as I understand gross NPAs at 6% are more or less peaked. So it can only improve from here?

P.G. Jayakumar: We are looking at 2.25% by the current financial year. In the current financial year we look at a growth of 2.25% and net of 1.5%.

Sudhakar Prabhu: This is one part. Secondly, in terms of growth what is the total number of branches you have and what is your branch addition plans in the next two to three years? Do you have any plans?

P.G. Jayakumar: As of today now we have 280 branches out of that 270 are the operating branches, rest are for the administrative services and all that. In the current financial year we do not propose to expand the branch network because of the profitability and all that. This year we will concentrate on opportunities available to our branches. We have not spread the existing branches fully. Anywhere what we look at is consolidation of business. Consolidation does not mean reducing business but we want to consolidate the strength of the branches by improving the business. That is our first priority except two infrastructures we want to use fully then only we can think of expansion, but as a broad direction, we have decided that from the financial year 2015-2016 we will be opening 10% of the existing branches, 38 branches in 16 or 17 branches or 35 to 40 branches, like we plan to expand.

- Sudhakar Prabhu:** Sir, you also gave some growth target for FY 2016 deposit and credit growth. Can you repeat it for me please?
- P.G. Jayakumar:** FY 2014?
- Sudhakar Prabhu:** FY 2015 you gave some growth target, deposit and credit growth?
- P.G. Jayakumar:** That we can give you. Roughly we have an estimate. If you look at the deposits it is about 13800, and advance of 9500.
- Sudhakar Prabhu:** 9500?
- P.G. Jayakumar:** 13800 and 9500.
- Sudhakar Prabhu:** Also if you can tell us which area will this credit growth will come from? Would it be largely retail and SMEs?
- P.G. Jayakumar:** Our focus is on retail and SME. Corporate we will not expand unless we are assured of the security or AA and above rating corporate's we will not lend to the corporate's. And that is why we are insisting that unlike in the past we are very conscious about the use unless we get at least 12% plus we will not lend to corporate's also. So now we are saying this is a conscious policy there. Now our focus is like this. Wherever we insist that there is substantial collateral to support. Our experience is that whenever there is collateral recovery is very effective and quicker. Our mission going forward we are very, very conscious about that aspect and we insist that we lend only to good corporate's if at all, SME, whatever be the proposal we are concentrating for better security that is collateral security or primary security in the form of tangible assets which is liquified in times of despair **(Unclear)**.
- Sudhakar Prabhu:** What about the NIM? Can the NIMs improve from the current level 2.27%?
- P.G. Jayakumar:** Our plan and our estimate is to take it to 3%.
- Sudhakar Prabhu:** 3% by FY 2015?
- P.G. Jayakumar:** Yes, because this year if you look at we had an interest reversal of 40 Crores, this is for lesser NIMs. There with the reduction in NPA and slippages coming down, some of the NPAs will result in reversal of interest income, so all these will contribute to the increase in NIM. Interest income will go up considerably. That is our estimate.
- Sudhakar Prabhu:** Couple of bookkeeping questions. What is your yield on advances and cost of funds?

- P.G. Jayakumar:** Cost of funds is 8.27% and yield on advance is 12.34%.
- Sudhakar Prabhu:** 12.?
- P.G. Jayakumar:** 12.34.
- Sudhakar Prabhu:** Lastly what are your capital requirements for the next two to three years? How do you plan to raise it?
- P.G. Jayakumar:** Current year we are planning to raise another 200 Crores then in 2015 we will be raising about 500 Crores, probably as a rights issue.
- Sudhakar Prabhu:** These 200 Crores is the preferential allotment which you are speaking about, right?
- P.G. Jayakumar:** This is underway now.
- Sudhakar Prabhu:** Have the price and the number of shares decided or is it yet to be finalized?
- P.G. Jayakumar:** Around Rs.40.
- Sudhakar Prabhu:** This would be sufficient for you at least for the next one to one and a half years?
- P.G. Jayakumar:** One and a half years is quite sufficient. In the present level it will take our CRAR to 12.87 Basel II and 11.54% Basel III. Around 200 Crores it will be 12.87% Basel II.
- Sudhakar Prabhu:** Lastly what are your ROA targets for this year and maybe two to three years down the line? Can you take it above 1%? Do you have that thing in mind?
- P.G. Jayakumar:** You are talking about return on investments?
- Sudhakar Prabhu:** Return on assets, what are your targets ROA, ROE for maybe next two to three years?
- P.G. Jayakumar:** Return on assets we plan for about 0.35% to 0.40% in the current financial year. Next year it will be around 0.65% to 0.70%. Next year it will be 1%. That is 2016-2017 it will be 1%.
- Sudhakar Prabhu:** Thank you Sir. All the best. Just one request if you can put a presentation on Dhanlaxmi Bank on your website that would be really helpful.
- P.G. Jayakumar:** We are doing it. Most probably tomorrow it will be there.
- Moderator:** Thank you. We are going to take a followup question from the line of VP Rajesh from Banyan Capital. Please go ahead.

- VP Rajesh:** Thanks. Sir, just trying to clarify, your net NPA was 300 Crores at the end of March and I am sorry, I did not get the number, you said you will recover in this quarter or in fiscal year 2015 out of that. What was the number Sir?
- P.G. Jayakumar:** We target to recover 70 Crores off the existing NPAs plus what we have targeted is any other slippage 90% we should recover. That is the theory that we propagate. That will be our target from Andhra given to the field. That is our target is like that we are working in those lines.
- VP Rajesh:** So, my question is in the last call, you had said that you should be able to recover 200 Crores or 250 Crores in Q4 itself and from the numbers I see I believe we only recovered 60 Crores. So, how should we think about realistically what is the potential recovery could be? I understand that the target is to get to 90%, but what is the more realistic numbers that we should be thinking about?
- P.G. Jayakumar:** There was only 66 Crores cash recovery that was there, but there was also upgradation and also we made sales to the assets reconstruction company about 100 Crores. So put together we almost reached the target. It is more than 200 if you reconcile that. Actually we wanted to buy a property in our Bank's name in Delhi. It was worth 62 Crores, but when we thought about the managing the real estate and the consideration, we sort of selling into the assets reconstruction company which forms to be favorable because there the recovery measures are almost final. We hope that this year we will crack that account. We will ensure that much of this security receipts which are in our system will be realized.
- VP Rajesh:** Just there was one particular account in your annual report for 2013 for which there was an amount of 55 Crores. It was put in standard restructuring, what is the status of that?
- P.G. Jayakumar:** That is I think 75 Crores we had forex. One account we had which is continuing to be a standard asset.
- VP Rajesh:** Sorry, it has become a standard account now?
- P.G. Jayakumar:** It is continuing to be a standard asset.
- VP Rajesh:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Mona Khetan from Elara Securities. Please go ahead.

- Mona Khetan:** Good evening, Sir, firstly could I have your interest reversal number for Q4 and for the whole year of FY 2014? The interest reversals we had for the slippages in this quarter and the financial year?
- P.G. Jayakumar:** Details of?
- P.G. Jayakumar:** Interest reversal on advances?
- P.G. Jayakumar:** Interest reversal on advances was 40 Crores. For Q4 it was 17 Crores.
- Mona Khetan:** Full year the number was?
- P.G. Jayakumar:** For Q4 it was 17 Crores and for the full year it was 40 Crores.
- Mona Khetan:** Sir, this financial year we have had many large slippages, so from your perspective do you think we have accounted for most of the larger ones so far or do you think there are many more left to come or likely them slipping in the near term or medium term?
- P.G. Jayakumar:** They are virtually stable because almost whatever is in the stage that is already we have accounted and then there would not be further slippages. We are quite sure of that.
- K. S. Krishnan:** Major slippages are not expected.
- P.G. Jayakumar:** Only few smaller and retail players will always accrue but again we will be lending about 2000 to 3000 Crores this year again. Our growth lending will be 5000, but net accretion will be more than 1800 Crores. This may be there, but major slippages are not expected in the present scenario; however, the country's performance is going up. Many of the industries, sectors are not performing well like the manufacturing sector, infrastructure sector, real estate all may look up. It will definitely add to the bank's burden. Actually it will help using the bank's burden for us.
- Mona Khetan:** Coming to your operating expenses we have seen in the last two financial years it has come down very sharply and it stood at a quarterly operating expense number of around 80 Crores or so. But this last quarter it shot up significantly to around 112 Crores so do you think this was a onetime number or do you feel that this could remain 100 Crores or do you think 80 Crores or doing more acceptable numbers going ahead quarterly operating expenses number?
- P.G. Jayakumar:** We will continue to be 88 Crores again, but the major hit on this was the additional provision for 17 months salary and so previous period income booked about 14 Crores previous period we had to reverse this year. So these together put together it was about 30

to 31 Crores, reversal plus provision for salary. This is not actually trade. It is only a provision created by the bank for the prospective agreement, which is going to happen with the union. So those two specific items hit Q4. That is why there is a difference of about more than 30 Crores additional expenditure which came.

Mona Khetan: So going ahead we can expect close to 80 Crores kind of operating expense quarterly? Is it a fair assumption?

P.G. Jayakumar: Roughly 85 Crores it will be there every quarter. Operating expenditure we do not expect much increase in operating expenditure in the current year because I told you the old days income which we had recurred we reversed this year. Those accidents (Unclear) will not be there going forward. If you look at for the previous year's balance sheet adjustment, we had provided a lot of money in the current financial year, but the actions, recurrence of such things will not come in going forward because we have given everything and cleaned up everything to the best possible manner. Now the only concentration is avoiding further slippage and recovery of NPA is our mantra in the current year apart from increasing the CASA. So CASA increasing we have started the mission to increase CASA to 1000 Crores. Even if it increases by 500 or 600 Crores it will be a big achievement in increasing our NIM to more than 3.2%. That is what we will try to do, but that is not a declared target. That is a mission, which is running parallelly, which we have already launched in the current financial year. Mobilizing CASA is a very tough task, but we are concentrating on that.

Mona Khetan: Sir, coming to your provisions, what was the NPL provisioning this quarter and for the whole year on investment and depreciation?

P.G. Jayakumar: Is it MTM loss?

Mona Khetan: Yes, MTM loss?

P.G. Jayakumar: Full year it is 100 Crores.

Mona Khetan: 100 Crores and what is the ET (Unclear) for the quarter?

P.G. Jayakumar: Current quarter 36.62 Crores.

Mona Khetan: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Amit Jain from Sunidhi Securities. Please go ahead.

Amit Jain: Just wanted to understand what is your SLR book currently?

P.G. Jayakumar: SLR is 3800 Crores.

Amit Jain: How much will be the AFS book?

P.G. Jayakumar: AFS book 1100 Crores.

Amit Jain: Sir, what is your plan on the SLR book? It is a little bit higher as compared to the industry average so how would you look these numbers going ahead?

P.G. Jayakumar: If the time is right we will encash it because for that we cannot, we are holding it only because of two reasons. We wanted a better liquidity in the past but now those days are gone and now we can go ahead with very smooth progress. We are able to avoid losses. We will encash it.

Amit Jain: Sir, do you see these percentages going to about 30% in the next one or two years?

P.G. Jayakumar: SLR securities as of now is more than 35%.

Amit Jain: That is what I am saying. Do you see this reducing to less than 30% or something in the next one year?

P.G. Jayakumar: We expect it to come to 24%. That is our endeavor. At this moment we will do that. Now it is a drain on our availability and also efficiency of the working.

Amit Jain: Actually I missed out on your slippage number. How much was it during the quarter?

P.G. Jayakumar: Pardon.

Amit Jain: Actually I missed out on your slippage number. How much was that?

P.G. Jayakumar: Last quarter slippages?

Amit Jain: Yes.

P.G. Jayakumar: It is 235 Crores last quarter.

Amit Jain: 235 Crores last quarter, any chunky account in this, more than 50 Crores, more than 100 Crores? Any large account in this?

P.G. Jayakumar: Only one account.

Amit Jain: How much was it?

P.G. Jayakumar: Around 50 Crores.

Amit Jain: That is all from me.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor to Mr. Jaikumar for closing comments?

P.G. Jayakumar: Thank you our valued investors and we are grateful to you for your excellent support and patience. We are confident that in the current year our performance will be far superior and all these shocks and difficulties they are all on account of the legacy problems which affected the bank in the last two years. We have struggled a lot and still we do our best to ensure that we are giving better value to the stakeholders. We will continue our good effort and in the current financial year and going forward we expect a very bright and prosperous years to come for the bank and especially we are grateful to our valued shareholders who report their or reinforce their confidence in the bank and its management and its operation and we take particular care to thank to everyone of you. Thank you so much. Kindly continue your excellent support and we will reward our stakeholders going forward continuously. That is what I would commit at this juncture. Thank you very much.

Moderator: Thank you Sir. On behalf of Elara Securities Private Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.